



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-3873
PHONE: (213) 974-8301 FAX: (213) 626-5427

WENDY L. WATANABE
AUDITOR-CONTROLLER

MARIA M. OMS
CHIEF DEPUTY

ASST. AUDITOR-CONTROLLERS

ROBERT A. DAVIS
JOHN NAIMO
JUDI E. THOMAS

September 17, 2010

TO: Supervisor Gloria Molina, Chair
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **ARMENIAN EVANGELICAL SOCIAL SERVICE CENTER CONTRACT
REVIEW – A DEPARTMENT OF PUBLIC SOCIAL SERVICES
REFUGEE EMPLOYMENT PROGRAM PROVIDER**

We completed a program, fiscal and administrative contract review of Armenian Evangelical Social Service Center (AESSC or Agency), a Department of Public Social Services (DPSS) Refugee Employment Program (REP) provider. The purpose of our review was to determine whether AESSC appropriately accounted for and spent REP funds. We also evaluated the adequacy of the Agency's accounting records, internal controls, and compliance with the contract and applicable guidelines.

DPSS compensates AESSC monthly at a fixed fee for each participant and requires the Agency to return any unspent revenues. DPSS paid the Agency \$518,567 during Fiscal Year (FY) 2008-09. AESSC provided services to residents of the Third and Fifth Supervisorial Districts during FY 2008-09.

Results of Review

The program participants met the eligibility requirements for the REP Program. In addition, the Agency's staff possessed the required qualifications and AESSC's Cost Allocation Plan was prepared in compliance with the County contract and used to appropriately allocate shared program costs. However, AESSC did not always comply with the other contract requirements. Specifically, AESSC did not:

- Ensure that bank reconciliations are signed and dated by the preparer.

AESSC response – AESSC indicated they will ensure that bank reconciliations are signed and dated by the preparer.

- Maintain the required crime insurance coverage.

AESSC response – AESSC indicated they have added the required coverage.

- Properly allocate depreciation costs to the REP Program.

AESSC response – AESSC indicated they will only charge allowable depreciation costs to the Program.

- Ensure employee variance time is properly recorded and benefit balances are decreased as hours are used.

AESSC response – AESSC indicated they track employee variance time and, subsequent to our review, provided documentation that they reduced the employee benefit balances.

- Perform criminal background clearances for all REP Program employees.

AESSC response – AESSC indicated they obtained clearances for the employees and provided documentation subsequent to our review.

Details of our review, along with recommendations for corrective action, are attached.

Review of Report

We discussed our report with AESSC and DPSS on August 19, 2010. In their attached response, AESSC management agreed with our findings and recommendations. DPSS indicated that they will work with AESSC to ensure that the recommendations are implemented.

We thank AESSC management for their cooperation and assistance during this review. Please call me if you have any questions or your staff may contact Don Chadwick at (213) 253-0301.

WLW:MMO:JET:DC:AA

Attachment

c: William T Fujioka, Chief Executive Officer
Philip L. Browning, Director, Department of Public Social Services
Jack H. Loussararian, Executive Director, AESSC
Dr. Nazareth Darakjan, Chairman, AESSC
Public Information Office
Audit Committee

**REFUGEE EMPLOYMENT PROGRAM
ARMENIAN EVANGELICAL SOCIAL SERVICE CENTER
FISCAL YEAR 2008-09**

BACKGROUND/PURPOSE

The Department of Public Social Services (DPSS) contracts with Armenian Evangelical Social Service Center (AESSC or Agency), a private, non-profit, community-based organization, to provide services to refugees who have resided in the United States for less than five years. The contract services include performing skills and needs assessments, facilitating job placement and retention services, and referring participants to additional available resources.

The purpose of our review was to determine whether AESSC complied with the contract terms and appropriately accounted for and spent Refugee Employment Program (REP) funds in providing the services outlined in their County contract. We also evaluated the adequacy of the Agency's accounting records, internal controls, and compliance with federal, State and County guidelines. In addition, we interviewed a number of the Agency's staff.

ELIGIBILITY

Objective

Determine whether AESSC provided services to individuals that met the eligibility requirements of the REP services.

Verification

We reviewed the case files for 20 (2%) of the 926 program participants that received services during May and June 2009.

Results

All 20 program participants met the eligibility requirements for REP services.

Recommendation

None.

PROGRAM SERVICES

Objective

Determine whether AESSC provided the services in accordance with the County contract and REP guidelines. In addition, determine whether the program participants received the billed services.

Verification

We reviewed the case file documentation for 20 program participants that received services during May and June 2009.

Results

AESSC provided the program services in accordance with the County contract.

Recommendation

None.

STAFFING QUALIFICATIONS

Objective

Determine whether AESSC staff possessed the qualifications required by the County contract.

Verification

We reviewed the personnel files for eight (80%) of the ten AESSC employees assigned to the REP Program.

Results

AESSC's staff possessed the qualifications required by the County contract.

Recommendation

None.

PERFORMANCE OUTCOMES**Objective**

Determine whether AESSC met the planned performance outcomes as outlined in the County contract and reported the performance outcomes to DPSS. The performance outcomes included increasing employment and work participation rates and reducing sanction rates.

We did not perform testwork in this section because accurate performance outcome data for AESSC was not available. DPSS indicated that the database they use to capture REP performance data is not capturing all of the REP participants. DPSS plans to review the Agency's performance outcomes when the system is updated in December 2010.

Recommendation

None.

CASH/REVENUE**Objective**

Determine whether cash receipts and revenue were properly recorded in AESSC's financial records and deposited timely in their bank account. In addition, determine whether the Agency maintained adequate controls over cash.

Verification

We interviewed AESSC personnel and reviewed financial records including the Agency's bank reconciliations for June 2009.

Results

AESSC properly recorded revenue. However, AESSC's bank reconciliations were not signed or dated by the preparer.

Recommendation

1. AESSC management ensure bank reconciliations are signed and dated by the preparer.

UNSPENT REVENUE**Objective**

Determine whether the Fiscal Year (FY) 2008-09 payments to AESSC reconciled to the Agency's accounting records.

Verification

We traced DPSS' FY 2008-09 payments to AESSC to the Agency's accounting records.

Results

AESSC's FY 2008-09 payments reconciled to the Agency's accounting records. In addition, AESSC did not have any unspent revenue for FY 2008-09. Specifically, the Agency's \$665,000 in expenditures exceeded their \$519,000 in revenue from DPSS by \$146,000.

Recommendation

None.

EXPENDITURES/PROCUREMENT**Objective**

Determine whether program expenditures were allowable under the County contract and properly documented.

Verification

We interviewed AESSC personnel and reviewed financial records and other documentation for seven non-payroll expenditures totaling \$4,323 that the Agency charged from September 2008 through June 2009.

Results

AESSC's expenditures were allowable and properly documented.

Recommendation

None.

ADMINISTRATIVE CONTROLS/CONTRACT COMPLIANCE**Objective**

Determine whether AESSC maintained sufficient internal controls over its business operations and if the Agency is in compliance with other program and administrative requirements.

Verification

We interviewed AESSC personnel, reviewed their policies and procedures manuals and conducted an on-site visit.

Results

AESSC generally maintained sufficient internal controls over its business operations. However, the Agency did not maintain the required crime insurance coverage. AESSC indicated that they have subsequently added the required coverage.

Recommendation

2. AESSC management maintain the required crime insurance coverage.

FIXED ASSETS AND EQUIPMENT**Objective**

Determine whether AESSC's fixed assets and equipment purchased with REP funds were used for the REP Program and were safeguarded. Also, determine whether fixed asset depreciation costs charged to the REP Program were allowable and properly documented.

Verification

We interviewed AESSC staff and reviewed the Agency's fixed assets and equipment inventory listing. In addition, we performed an inventory of eight items purchased with REP funds in prior years and reviewed items with depreciation costs totaling \$1,568 that the Agency charged to the DPSS Program in FY 2008-09.

Results

AESSC improperly allocated \$508 in depreciation to the REP Program for building improvements on a location that is not used by the Program. However, repayment is not required because, as previously indicated, AESSC allowable program expenditures exceeded the revenue they received for FY 2008-09.

Recommendation

3. AESSC management ensure only allowable depreciation costs are charged to the REP Program.

PAYROLL AND PERSONNEL**Objective**

Determine whether payroll expenditures were appropriately charged to the REP Program. In addition, determine whether AESSC obtained background clearances and verified employment eligibility for REP Program employees.

Verification

We traced the payroll expenditures for eight employees totaling \$39,560 for May and June 2009 to the Agency's payroll records and time reports. We also interviewed staff and reviewed eight personnel files for REP Program staff.

Results

AESSC appropriately charged payroll expenditures to the REP Program. However, five of the eight employees reviewed used variance time but the Agency did not provide us with documentation that they reduced benefit balances for all five employees. In addition, the Agency did not perform the required criminal background clearances for all eight employees reviewed.

Subsequent to our review, AESSC completed the criminal background clearances for the eight employees and provided documentation that they reduced the employee benefit balances.

Recommendations**AESSC management:**

4. Ensure employee variance time is properly recorded and benefit balances are decreased as hours are used.
5. Perform criminal background clearances for all REP Program employees.

COST ALLOCATION PLAN

Objective

Determine whether AESSC's Cost Allocation Plan was prepared in compliance with the County contract and used to appropriately allocate shared program costs.

Verification

We reviewed the Cost Allocation Plan and a sample of expenditures AESSC incurred during August 2008 through March 2009.

Results

AESSC's Cost Allocation Plan was prepared in compliance with the County contract and the costs were appropriately allocated.

Recommendation

None.

PRIOR YEAR FOLLOW-UP

Objective

Determine the status of the recommendations reported in the Auditor-Controller's prior monitoring review.

Verification

We verified whether the outstanding recommendations from the FY 2006-07 monitoring report were implemented. The report was issued on May 14, 2007.

Results

AESSC implemented the recommendations contained in the prior monitoring report.

Recommendation

None.



ARMENIAN EVANGELICAL SOCIAL SERVICE CENTER
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611 E. Colorado St., Glendale, CA 91205

Tel: (818) 240-8771 • Fax: (818) 240-8791

Email: AESSC1@pacbell.net

August 24, 2010

Wendy Watanabe, Auditor Controller
County of Los Angeles
Department of Auditor Controller
Countywide Contract Monitoring Division
350 South Figueroa Street 8th Floor
Los Angeles, CA 90071

Dear Ms. Watanabe,

AESSC acknowledges receipt of the draft audit report for the Refugee Employment Program for Fiscal Year 2008-09 and hereby responds to the recommendations.

Recommendation 1. AESSC management ensure that bank reconciliations are signed and dated by the preparer.

Effective immediately AESSC will ensure that bank reconciliations are signed and dated by the preparer.

Recommendation 2. AESSC management maintain the required crime coverage.

Effective immediately AESSC has added the required crime coverage and a copy has been provided to the Auditor Controller.

Recommendation 3. AESSC management ensure only allowable depreciation costs are charged to the REP program.

Effective immediately AESSC will ensure that only allowable depreciation costs are charged to the REP program.

Recommendation 4. AESSC management ensure that employee variance time is properly recorded and benefit balances are decreased as hours are used.

AESSC maintains employee variance time record and subsequent to the review has provided the employee variance time record to the Auditor Controller

Recommendation 5. Perform criminal background clearance for all REP program Employees.

Since February, 09 AESSC attempted to get clarification from DPSS on how to obtain an ORI number as required by the Justice Department. However during the review, AESSC did not have the background clearance. Subsequently AESSC obtained the criminal background clearance and provided it to the Auditor Controller in September, 09.

Sincerely,

Jack H. Loussarian, Executive Director